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## National Intelligence Daily (Cable)

3 July 1982

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ISRAEL-LEBANON:

(Information as of 2300 EDT)

*Lebanese Prime Minister Wazzan and PLO chief Arafat reportedly have reached an agreement, but it does not satisfy Israeli demands.*

The Israeli press yesterday headlined Prime Minister Begin's statement to Deputy Assistant Secretary Draper on Thursday that indicated he would give Ambassador Habib until the Israeli cabinet meeting tomorrow to produce some clear signs of progress in his negotiations. The press also reported Begin was pleased with President Reagan's endorsement of Begin's assertion he had not promised to refrain from attacking West Beirut.

Israeli officials yesterday applied more psychological pressure on the Palestinians. Defense Minister Sharon visited Israeli forces in Beirut and publicly reiterated the need to eliminate the PLO presence in Lebanon. In addition, Chief of Staff Eitan said Israel could pursue a talk-and-fight strategy in West Beirut, claiming that it would be possible to reach a "military solution" without engaging in street-to-street fighting.

Comment: As Eitan's comments indicate, the Israelis are considering a wide range of military options to use against the Palestinians. They seem to prefer, at least initially, not to launch an all-out assault on West Beirut. They could increase their pressure in increments in an attempt to avoid heavy military and civilian casualties.

#### Israeli Domestic Support for the War

A poll published yesterday showed that more than 75 percent of all Israelis support the war in Lebanon. Begin's Likud bloc, according to the poll, would win close to a majority if parliamentary elections were held now.

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Comment: The poll results will reinforce the government's perception that domestic opposition to the war is narrowly based and that there would be little political damage resulting from a move into West Beirut. [ ]

#### PLO-Lebanese Negotiations

Beirut Radio reported yesterday that Arafat and Wazzan had reached a draft agreement on the PLO's status in Lebanon. The agreement reportedly calls for Palestinian fighters to depart Beirut to an Arab state, a Palestinian military force of 500 men to remain outside Beirut, and an Israeli withdrawal several kilometers from Beirut to coincide with the Palestinians' withdrawal. [ ]

Comment: The report provided no further details on the alleged agreement. Arafat and Wazzan may have reached some preliminary accord, but it would have to be approved by the Lebanese cabinet and probably by other PLO leaders. [ ]

Such an agreement would mark Arafat's first formal acknowledgment of PLO willingness to leave Beirut. Its call for a "several kilometer" Israeli pullback would alter the previous PLO demand for a 5-kilometer withdrawal. Israel, however, is opposed to allowing even a token PLO military force to remain in Lebanon, and also has rejected a pullback from Beirut. [ ]

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### Arab League Committee Meeting

The six-member Arab League ministerial committee meeting in Taif, Saudi Arabia, adjourned yesterday without taking any new initiatives on Lebanon. The only proposal considered was a draft plan incorporating the PLO's demand for a military and political presence in Beirut.

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In his meeting with the committee yesterday, Lebanese Phalange leader Bashir Jumayyil flatly rejected the PLO proposal. The committee decided to send teams of high-level envoys, probably early next week, to the five permanent members of the UN Security Council to seek official views on the Lebanese situation.

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USSR: Questions About Brezhnev's Status

*There is some evidence that the Politburo has expanded party Secretary Andropov's responsibilities and may be preparing him to succeed as party chief.* [redacted]

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Andropov recently represented the leadership at a contrived Kremlin ceremony that President Brezhnev did not attend. [redacted]

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[redacted] Andropov had officially assumed Suslov's duties. [redacted] preparations are under way to ensure Andropov's succession as party leader and that word of this is being passed to East European Communist parties. [redacted]

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Comment: Unambiguous evidence is not likely to appear before Brezhnev decides to step down or his peers decide to remove him. Nevertheless, the comments by Foreign Ministry officials and other circumstantial evidence raise the possibility that some change in his status is in the offing. This could be announced at a party plenum. [redacted]

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A plenum could announce that Brezhnev has retired or relinquished either the presidency or party chairmanship. It appears, however, that Brezhnev's power continues to diminish and that the day-to-day running of the USSR increasingly is passing to Andropov and others. Under these circumstances, a change in Brezhnev's formal status could happen at any time. [redacted]

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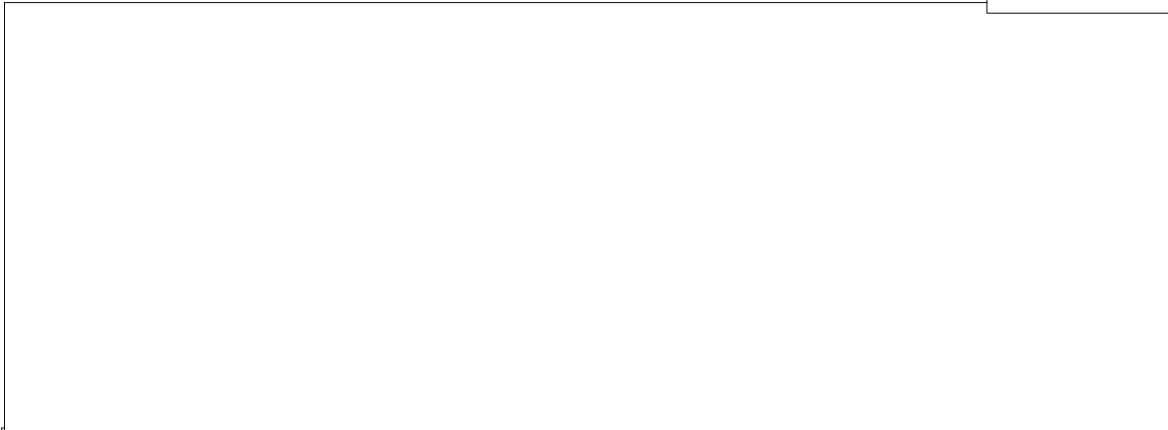
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IRAN-IRAQ: Iranian Military Intentions

*//Iran may be renewing preparations to invade Iraq.//*

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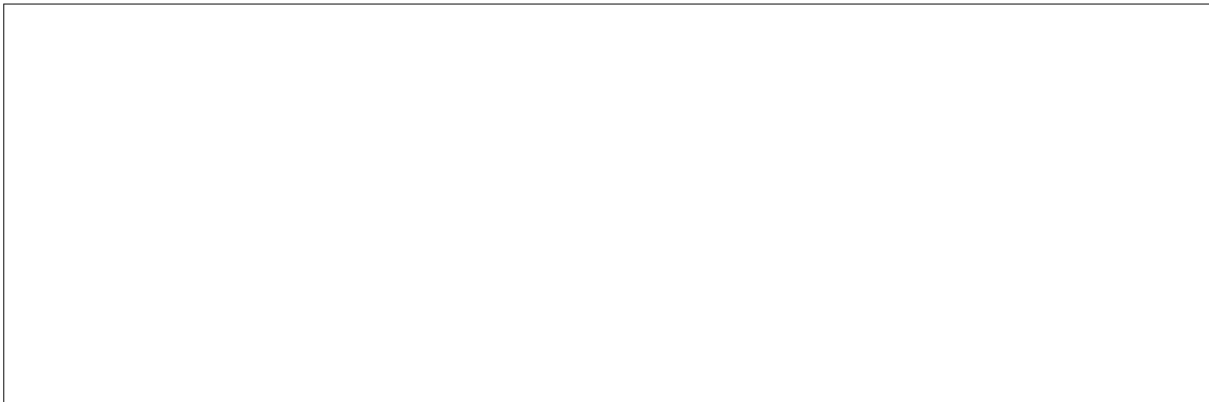


the  
Iraqis have evacuated Qasr-e Shirin but remain in Iran  
along the Doveyrich River in northern Khuzestan. Some  
Iraqi units in the Al Basrah area are being pulled back  
to the garrison at Az Zubayr.//

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JAPAN-USSR: Energy Project To Proceed

*Japan will continue the Sakhalin offshore oil and gas project in spite of US refusal to license the export of needed technology.*

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//The president of Japan's Sakhalin Oil Development Corporation told reporters on Thursday that Soviet foreign trade officials in Moscow had just assured him the project would proceed.

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Comment: //The corporation is resigned to a year's delay in the completion of exploratory work. In the interim, it will be searching for alternative sources of technology.//

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//The Japanese should be able to design some equipment. Inferior Soviet equipment could be used, but the Japanese have counted the opportunity to fabricate drilling rigs and production platforms in Japan as one of the benefits of participating in the joint project.//

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EL SALVADOR: Insurgent Activity

*//The guerrillas continue small-scale harassing actions throughout much of the country while government forces remain heavily involved in northern Morazan.//*

//The insurgents were able to overrun two small government outposts in Chalatenango Department but failed to seize the larger town of Suchitoto. They also have increased raids on electrical power and transportation systems, blacking out much of the north and the east and disrupting bus traffic in numerous areas.//

//Meanwhile, Army units in northern Morazan have had little contact with the guerrillas. Honduras has provided three battalions as a blocking force and also has begun a sweep through disputed border territory. The Salvadoran and Honduran Chiefs of Staff are in constant contact, and they reportedly may want to garrison the disputed area permanently.//

The insurgents have protested the Honduran military actions and cooperation with the Salvadoran military, and they now claim the right to carry the fight to Honduras. They also are calling on the Honduran people to oppose their government and military leadership, labeling President Suazo and General Alvarez as US "puppets."

Comment: //The Salvadoran military appears determined to see its operation in Morazan through to the end despite the increase in insurgent activity elsewhere. The Army probably is correct in gambling that the insurgents do not have the capability to launch another large-scale operation in the near future.//

//The ability of the guerrillas and their leftist Honduran allies to retaliate is likely to be limited to isolated acts of terrorism and sabotage. Nevertheless, the harassing actions are particularly damaging to the economy and demonstrate improved coordination among the various guerrilla factions.//

//The agreement to allow Honduran forces into disputed border areas is unprecedented and could help eventually to reduce the insurgents' use of border sanctuaries.//

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HUNGARY: Financial Pressure Eases

*West German and French support could help Hungary out of its immediate hard currency bind, but Budapest's financial position will remain precarious at least for the remainder of the year.* [ ]

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[ ] a cabinet-level decision has been made to support additional credits for Hungary to avert a rescheduling in 1982. The cabinet fears a rescheduling would threaten Budapest's program of economic and political liberalization. [ ]

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French bankers anticipate that, as a result of President Mitterrand's visit to Budapest next week, Paris will instruct them to provide new credits to Hungary. French banks have been reluctant to give new loans to Hungary unless backed by a government guarantee. [ ]

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Comment: West German and French Government support would help Budapest in its efforts to raise \$250 million from Western commercial banks and \$300 million from the Bank for International Settlements. Access to more BIS funds depends, however, upon agreement with the IMF on credits tied to a stabilization program that probably will require Budapest to take tougher measures to curb imports. [ ]

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# NAMIBIA: Another Round of Talks

Representatives of the South-West Africa People's Organization, the Frontline States and South Africa are scheduled to begin Western-sponsored "proximity" talks on Tuesday in New York to resolve settlement issues on Namibia. The agenda will include discussion of the size and composition of the UN monitoring force, the disposition and monitoring of opposing military forces, and the UN's relationship with SWAPO. [REDACTED]

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//South Africa recently has demonstrated flexibility on the size of the monitoring force and the UN's "pro-SWAP0 bias." This flexibility, plus Pretoria's initiative in presenting an accelerated timetable for a settlement, has broken the five-month impasse in the negotiations and made the talks in New York possible. Lurking in the background, however, is the issue of a Cuban troop withdrawal from Angola that South Africa has presented as a condition for a settlement on Namibia. The Frontline States oppose linking the Cuban troop question to a settlement.// [REDACTED]

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# SOUTH AFRICA: Labor Unrest

Police used tear gas to disperse over 13,000 black miners who rioted on Thursday near Johannesburg to protest low wage increases announced this week. About one-third of the rioters yesterday refused to reenter the mines and set fire to a local administration building. The wage boosts, averaging less than 12 percent, are the lowest in recent years and do not keep pace with inflation. Work stoppages have disrupted gold production at three mines, including two that are among the country's largest. Several major labor agreements are due for renegotiation, and white miners have already threatened to strike if their wage demands are not met. [REDACTED]

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Comment: Reduced mining output would worsen South Africa's growing trade deficit and economic slump, and the government may intervene to prevent strikes. [REDACTED]

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INTERNATIONAL: OECD Export Credit Arrangement

//EC Finance Ministers have agreed, with minor reservations, to the latest compromise proposal for extending the OECD export credit arrangement for another year. The revised agreement reclassifies a number of countries, including the USSR, to more affluent borrower categories that carry new higher minimum lending rates. Except for transactions with the least developed countries, the agreement also reduces government subsidies by increasing the minimum interest rates allowed on export credits. Japan and other countries with low domestic interest rates will have to lend at a minimum of 0.3 percentage points above domestic commercial rates.//

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Comment: //EC agreement had been delayed by French objections to interest rate increases and by Greek opposition to being placed in a higher income category. After a face-saving delay, Paris's threat to link export credit issues with US-EC steel and pipeline controversies was not carried out. The last-minute reprieve of the arrangement forestalls for at least one year what could have been an undisciplined and widespread export credit competition among OECD members.//

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IRAN-JAPAN: Status of Petrochemical Project

Iran and Japan reportedly are near agreement on terms for the resumption of work at Iran's largest petrochemical complex, where work has been stopped because of the war and funding disputes. Officials of the Japanese companies building the project at Bandar-e Khomeini report the Iranian Government has authorized the National Iranian Oil Company to provide at least \$1 billion in new funding. The Japanese have invested \$2.5 billion in the project and are unwilling to commit new funds of their own because they doubt it will be profitable.

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Comment: The negotiations on the complex, which probably will cost at least \$4 billion, may again stall. Nonetheless, Iran views completion of the complex as vital to its economic reconstruction and as a signal to potential Western trading partners of its willingness to negotiate in good faith.

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SPECIAL ANALYSIS

MEXICO: Election Outlook

*Ruling party candidate Miguel de la Madrid will be elected president tomorrow. His uphill struggle to overcome voter apathy, however, reflects public disillusionment with the current administration's management of the economy and his own shortcomings as a campaigner. Party leaders are sufficiently concerned about high voter abstention that they reportedly are moving forward with plans to manipulate the vote count. This action will enable de la Madrid to begin dealing with economic problems when he takes office in December, but it also may deepen public cynicism regarding the political process.*

De la Madrid's campaign has been beset with difficulties. By selecting a centrist candidate with technocratic credentials similar to his own, President Lopez Portillo provoked widespread resentment in the ruling party among leftists, the powerful labor sector, and veteran politicians.

//De la Madrid has had some success in recent months in restoring party harmony. He has gained labor's support largely as a result of generous government wage adjustments that followed the devaluation in February and continued price controls. In addition, many of the campaign team's early organizational problems have been overcome as de la Madrid's backers have gained experience and sought assistance from party professionals.//

The campaign waged by de la Madrid has focused on countering the trend toward growing voter apathy. De la Madrid has been more willing than previous ruling party candidates to acknowledge lack of government responsiveness and has consistently denounced official corruption. As a former member of the economic cabinet, however, de la Madrid inevitably has been hurt somewhat by the government's handling of the devaluation.

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To strengthen public confidence and improve his own position, de la Madrid has conducted the most extensive presidential campaign in Mexican history. His uninspiring speaking style and public reserve, however, have hampered attempts to stir up popular enthusiasm. The party is hoping its skills in mass mobilization and the pervasive media campaign will help offset the candidate's deficiencies.

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#### The Opposition

The six opposition candidates recognize they have no real possibility of winning. They are primarily concerned with making a strong showing in the legislative elections, thereby improving the positions of their parties among opposition groups.

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Neither of the two major opposition parties, the center-right National Action Party and the Communist-dominated Unified Socialist Party of Mexico, appears to have greatly broadened its base. Moreover, by amending an electoral reform law in February, the government apparently has paved the way for preventing the two largest opposition parties from gaining additional seats in the 400-member Chamber of Deputies even if they increase their vote total.

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When it was formed last fall, the Unified Socialist Party of Mexico hoped to surpass the National Action Party and for the first time establish a leftist grouping as the leading opposition party. Party candidate Martinez Verdugo, who was secretary general of the Mexican Communist Party until it was dissolved last November, has tried to expand the coalition's base by emphasizing a nonradical message and by cultivating Catholic voters. Although Martinez's professorial mien and divisions in the coalition have been restraining factors, the party's vigorous campaign may enable it to increase its share of the vote a few percentage points beyond the 5 points it gained in the legislative elections in 1979.

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The National Action Party also has shifted more toward the center to strengthen its appeal but has shown little sign of expanding its essentially urban middle class following. The party, which relies on pockets of regional strength, should be able to at least equal the nearly 12 percent of the vote it received in 1979. But the party seems particularly vulnerable to the amended electoral reform law and may suffer some erosion in the 43 seats it now holds in the Chamber of Deputies.

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